LIME ENERGY CO.
Form 10-Q
November 12, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-16265

LIME ENERGY CO.

(Exact name of registrant as specified in its charter)

Delaware	**36-4197337**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

16810 Kenton Drive, Suite 240, Huntersville, NC 28078
(Address of principal executive offices, including zip code)

(704) 892-4442
(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o	Accelerated Filer o
Non-Accelerated Filer o	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

3,771,002 shares of the registrant s common stock, $.0001 par value per share, were outstanding as of November 12, 2014.

Table of Contents

LIME ENERGY CO.

FORM 10-Q

For The Quarter Ended September 30, 2014

INDEX

		Page Number
Part I	Financial Information	
ITEM 1.	Financial Statements:	
	Condensed Consolidated Balance Sheets September 30, 2014 (unaudited) and December 31, 2013	1
	Unaudited Condensed Consolidated Statements of Operations Three and Nine Months Ended September 30, 2014 and 2013	3
	Unaudited Condensed Consolidated Statement of Stockholders Equity Nine Months Ended September 30, 2014	4
	Unaudited Condensed Consolidated Statements of Cash Flows Three and Nine Months Ended September 30, 2014 and 2013	5
	Notes to Unaudited Condensed Consolidated Financial Statements	7
ITEM 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	20
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	34
ITEM 4.	Controls and Procedures	35
Part II.	Other Information	
ITEM 1.	Legal Proceedings	35
ITEM 1A.	Risk Factors	36
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
ITEM 6.	Exhibits	36
	Signatures	38

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

Lime Energy Co.

Condensed Consolidated Balance Sheets

(in thousands)

	September 30, 2014 (unaudited)	December 31, 2013 (1)
Assets		
Current Assets		
Cash and cash equivalents	$ 1,293	$ 6,940
Restricted cash	500	500
Accounts receivable, net of allowance for doubtful accounts of $2,299 and $1,824, respectively	10,264	9,151
Costs and estimated earnings in excess of billings on uncompleted contracts	8,705	6,625
Prepaid expenses and other	520	255
Current assets of discontinued operations	1,732	3,442
Total Current Assets	23,014	26,913
Net Property and Equipment	1,460	1,562
Deferred Financing Costs, Net	109	
Long-Term Receivables	516	296
Goodwill	6,009	6,009
	$ 31,108	$ 34,780

Table of Contents

Lime Energy Co.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

	September 30, 2014 (unaudited)	December 31, 2013 (1)
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 17,661	$ 15,835
Accrued expenses	1,779	2,907
Billings in excess of costs and estimated earnings on uncompleted contracts	405	1,711
Customer deposits	281	72
Current liability to trade creditor	509	3,236
Current liabilities of discontinued operations	1,135	3,245
Total Current Liabilities	21,770	27,006
Long-Term Debt	1,000	
Total Liabilities	22,770	27,006
Stockholders Equity		
Series A Preferred stock, $0.01 par value; 2,000,000 authorized 1,016,982 and 957,624 issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	10	9
Series B Preferred stock, $0.01 par value; 1,000,000 authorized 636,170 and 401,232 issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	6	4
Common stock, $.0001 par value; 50,000,000 shares authorized 3,760,267 and 3,667,298 issued and outstanding as of September 30, 2014 and December 31, 2013, respectively		
Additional paid-in capital	207,301	205,489
Accumulated deficit	(198,979)	(197,728)
Total Stockholders Equity	8,338	7,774
	$ 31,108	**$** 34,780

(1) Derived from audited financial statements in the Company s annual report on Form 10-K for the year ended December 31, 2013

See accompanying notes to condensed consolidated financial statements

Table of Contents

Lime Energy Co.

Unaudited Condensed Consolidated Statements of Operations

(in thousands except share data, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	$ 15,585	$ 13,354	$ 41,456	$ 37,513
Cost of sales	10,735	9,651	28,462	27,433
Gross Profit	4,850	3,703	12,994	10,080
Selling, general and administrative	4,887	5,697	14,463	17,142
Amortization of intangibles				10
Operating loss	(37)	(1,994)	(1,469)	(7,072)
Other Income (Expense)				
Interest income	27	13	66	39
Interest expense	(35)	(1,530)	(35)	(2,052)
Total other income (expense)	(8)	(1,517)	31	(2,013)
Loss from continuing operations	(45)	(3,511)	(1,438)	(9,085)
Discontinued Operations:				
Income (Loss) from operation of discontinued business	136	(329)	187	(3,504)
Net Income (Loss)	$ 91	$ (3,840)	$ (1,251)	$ (12,589)
Preferred stock dividends	(521)	(22)	(2,474)	(22)
Net loss available to common stockholders	(430)	(3,862)	(3,725)	(12,611)
Basic and diluted (loss) earnings per common share from				
Continuing operations	$ (0.15)	$ (0.98)	$ (1.05)	$ (2.53)
Discontinued operations	0.04	(0.09)	0.05	(0.97)
Basic and Diluted Loss Per Common Share	$ (0.11)	$ (1.07)	$ (1.00)	$ (3.50)
Weighted Average Common Shares Outstanding	3,760	3,593	3,738	3,594

See accompanying notes to condensed consolidated financial statements

3

Table of Contents

Lime Energy Co.

Unaudited Condensed Consolidated Statement of Stockholders Equity

(in thousands, unaudited)

	Common Shares	Common Stock	Series A Preferred Shares	Series A Preferred Stock	Series B Preferred Shares	Series B Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Equity
Balance, December 31, 2013	**3,667**	**$**	**958**	**$ 9**	**$ 401**	**$ 4**	**$ 205,489**	**$ (197,728)**	**$ 7,774**
Issuance of preferred stock					200	2	1,998		2,000
Issuance costs							(11)		(11)
Warrants issued							101		101
Preferred stock dividends							(1,464)		(1,464)
Satisfaction of preferred stock dividends through the issuance of preferred stock			59	1	35		943		944
Shares issued for benefit plans	4						8		8
Share based compensation	89						237		237
Net loss								(1,251)	(1,251)
Balance, September 30, 2014	**3,760**	**$**	**1,017**	**$ 10**	**636**	**$ 6**	**$ 207,301**	**$ (198,979)**	**$ 8,338**

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Lime Energy Co.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Cash Flows From Operating Activities				
Net Income (Loss)	$ 91	$ (3,840)	$ (1,251)	$ (12,589)
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Provision for bad debt	320	432	688	773
Share-based compensation	46	115	237	492
Depreciation and amortization	177	261	546	793
Asset Impairment		27		27
PIK notes issued for interest		191		575
Amortization of deferred financing costs		56		108
Amortization of original issue discount		1,307		1,439
Loss on disposition of property and equipment		(148)		(136)
Changes in assets and liabilities, net of business acquisitions and dispositions:				
Accounts receivable	(1,661)	(626)	(2,021)	(362)
Inventories				3
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,422)	(32)	(2,080)	(1,756)
Prepaid expenses and other	(33)	152	(265)	116
Assets of discontinued operations	413	107	1,710	1,695
Accounts payable	4,198	2,675	1,826	7,217
Accrued expenses		180	(1,648)	428
Billings in excess of costs and estimated earnings on uncompleted contracts	(14)	(1,150)	(1,306)	(841)
Other current liabilities	(854)	(692)	(2,518)	(1,202)
Liabilities of discontinued operations	(301)	(681)	(2,111)	(48)
Net cash used in operating activities	(40)	(1,666)	(8,193)	(3,268)
Cash Flows From Investing Activities				
Proceeds from sale of ESCO business		128		1,988
Proceeds from sale of property and equipment		1		1
Purchases of property and equipment	(169)	(150)	(443)	(437)
Net cash (used in) provided by investing activities	(169)	(21)	(443)	1,552
Cash Flows From Financing Activities				
Payments of long-term debt		(60)		(137)
Proceeds from the issuance of convertible notes	1,000		1,000	
Proceeds from the issuance of preferred stock		2,500	2,000	2,500
Costs related to stock issuances	(2)	(12)	(11)	(12)
Net cash provided by financing activities	998	2,428	2,989	2,351

Net Increase (Decrease) in Cash and Cash Equivalents	789	741	(5,647)	635
Cash and Cash Equivalents, at beginning of period	504	1,906	6,940	2,012
Cash and Cash Equivalents, at end of period	$ 1,293	$ 2,647	$ 1,293	$ 2,647

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Supplemental Disclosure of Cash Flow Information:				
Preferred dividends satisfied through issuance of preferred stock:	$	$	$ 943	$
Warrants issued with letter of credit	$ 101		$ 101	
Cash paid during the period for interest:				
Continuing operations	$ 3	$	$ 3	$
Discontinued operations	$	$ 65	$	$ 151

See accompanying notes to condensed consolidated financial statements

Table of Contents

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements (the Financial Statements) of Lime Energy Co. (Lime Energy and, together with its subsidiaries, the Company , we , us or our) have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated b the Securities and Exchange Commission (the SEC) and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP). In our opinion, however, the Financial Statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows as of and for the interim periods.

The results of operations for the three and nine month periods ended September 30, 2014 and 2013 are not necessarily indicative of the results to be expected for the full year.

The Company has raised a significant amount of capital since its formation through the issuance of shares of its common and preferred stock, all of which have allowed the Company to continue to execute its business plan. The actual timing and amount of future funding requirements will depend on many factors, including the amount, timing and profitability of future revenues, working capital requirements, the level and amount of the Company s sales efforts, among other things. While it is possible that current cash balances will be sufficient to carry the Company until operations turn cash flow positive, it is also possible that the Company will need to raise additional capital sometime in the near future. If the Company determines it is necessary to raise additional capital, there is no assurance it will be able to do so, or, it may only be available on terms that are not favorable to the Company and/or existing stockholders.

The December 31, 2013 balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

For further information, refer to the audited financial statements and the related footnotes included in the Lime Energy Co. Annual Report on Form 10-K for the year ended December 31, 2013.

Note 2 - Share-Based Compensation

A committee of the Board of Directors grants stock options and restricted stock under the Company s 2008 Long Term Incentive Plan, as amended (the Plan). All of the options have been granted at a price equal to or greater than the market price of the Company s stock on the date of grant. Substantially all stock option grants outstanding under the Plan vest ratably over three years and expire 10 years from the date of grant. In addition to the Plan, the Company gave employees the right to purchase shares at a discount to the market price under its employee stock purchase plan (ESPP). The ESPP expired on December 31, 2012, but at the Company s annual meeting held in December 2013, its stockholders approved a new ESPP for a one year period commencing January 1, 2014 (the 2014 ESPP). The new plan (2015 ESPP) was approved at the annual meeting held on June 25, 2014, which replaced the 2014 ESPP with a new ESPP that will run from July 1, 2014 through June 30, 2015, and will better correspond with the Company s annual meeting dates.

During the second quarter of 2010, the Company issued options to certain employees that vest upon achievement of certain financial objectives in combination with a minimum market price for its common

Table of Contents

stock during a five-year period (the Cliff Options). The Company assesses the probability of achieving these objectives at the end of each month and recognizes expense accordingly.

In addition to the Plan and the ESPPs, the Board of Directors grants restricted stock to non-employee directors under the Company s 2010 Non-Employee Director Stock Plan (the Directors Plan). Restricted stock granted to date under the Directors Plan vest 50% upon grant and 50% on the first anniversary of the grant date if the director is still serving on the Board of Directors on the vesting date.

The Company accounts for employee share-based awards in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718. This pronouncement requires companies to measure the cost of employee service received in exchange for a share-based award based on the fair value of the award at the date of grant, with expense recognized over the requisite service period, which is generally equal to the vesting period of the grant.

The following table summarizes the Company s total share-based compensation expense for the three and nine month periods ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Stock options	$ (20)	$ 72	$ (7)	$ 307
Restricted stock	66	43	232	185
Employee Stock Purchase Plan			12	
	$ 46	$ 115	$ 237	$ 492

The compensation expense to be recognized in future periods related to the Company s employee options and restricted stock is as follows (in thousands):

As of September 30, 2014	Unrecognized Compensation Expense	Weighted Average Remaining Life (in Months)
Stock options	$ 14	12.1
Restricted stock	$ 156	8.5

In addition, there was approximately $293 thousand of unrecognized expense related to the Cliff Options which may be recognized over the next 7 months, if vesting requirements are met.

Table of Contents

Note 3 Recent Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update (ASU) 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in ASU 2014-08 change the criteria for reporting a discontinued operation and require new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Only disposals representing a strategic shift in operations should be presented as discontinued operations. This accounting standard update is effective for annual filings beginning on or after December 15, 2014. Early adoption is permitted. The impact of the adoption of ASU 2014-08 on the Company s results of operations, financial position, cash flows and disclosures will be based on the Company s future disposal activity.

In May 2014, the FASB issued ASU 2014-09, Revenue From Contracts With Customers. ASU 2014-09 supersedes nearly all existing revenue recognition under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration the Company expects to be entitled to for those goods or services using a defined five step process. More judgment and estimates may be required to achieve this principle than under existing U.S. GAAP. ASU 2014-09 is effective for annual periods beginning after December 15, 2016, including interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption which includes additional footnote disclosures. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company s consolidated financial statements and has not yet determined the method of adoption.

Note 4 Earnings Per Share

The Company computes income or loss per share under ACS 260 Earnings Per Share, which requires presentation of two amounts: basic and diluted earnings or loss per common share. Basic earnings or loss per common share is computed by dividing income or loss available to common stockholders by the number of weighted average common shares outstanding, and includes all common stock issued. Diluted earnings include all common stock equivalents. The Company has not included the outstanding options or warrants as common stock equivalents in the computation of diluted earnings or loss per share for the three and nine months ended September 30, 2014 and 2013, because the effect would be anti-dilutive.

The following table sets forth the weighted average shares issuable upon exercise of outstanding options and warrants as of September 30, 2014:

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Weighted average shares issuable upon exercise of outstanding options	357,568	460,683	357,240	474,533
Weighted average shares issuable upon exercise of outstanding warrants	1,851,131	710,543	1,780,695	701,700
Total	2,208,699	1,171,226	2,137,935	1,176,233

Note 5 GES-Port Charlotte (GESPC)

During 2010, the Company established Lime Energy Asset Development, LLC (LEAD), to develop, construct, operate and in certain situations own energy producing assets. On November 1, 2013, the

Company sold GES-Port Charlotte to Green Gas Americas, Inc. (Green Gas or the Buyer). The sale was consummated pursuant to a Membership Interest Purchase Agreement (the Purchase Agreement), dated November 1, 2013, by and between LEAD, as the seller, and Green Gas, as the purchaser. The total purchase price paid for the membership interest was $3.3 million, less a $152,300 contribution on the part of the Seller toward the cost of wellfield improvements. The agreement also provides for a 5%, or $165,000, hold-back of the purchase price (the Hold-Back) to be held in escrow to cover the indemnification obligations of the seller and any additional pre-closing liabilities. After application by the Buyer to obligations of the Seller, the balance at September 30, 2014 was $18,000 and is included in Accounts Receivable. The remaining $18,000 was released on November 6, 2014. At September 30, 2014, the balance of the escrow of the Company provided typical indemnifications to the Buyer, including for breach of representations, third party claims, pre-closing liabilities, etc., all of which are capped at the total purchase price paid by the Buyer.

As part of the Purchase Agreement, Lime agreed to assume GESPC s obligation to Florida Power and Light (FP&L) for the cost of completing an interconnect between GESPC s facility and the FP&L s transmission system. This obligation totaled $400,000 as of November 1, 2013, and required monthly payments of $50,000 to FP&L. The obligation was fully satisfied during the third quarter of 2014.

The Company recognized a $27,000 loss on the sale of GESPC. Upon the closing of the transaction, the Company repaid in full the term loan it used to fund the construction of the Zemel Road facility.

Note 6 Current Liability to Trade Creditor

In December 2012, one of the Company s major suppliers agreed to allow it to pay for approximately $5.3 million worth of purchases over a 23 month period. The balance of this liability was $0.5 million and $3.2 million as of September 30, 2014 and December 31, 2013, respectively.

Table of Contents

Note 7 Term Loan

On November 3, 2011, GES-Port Charlotte, LLC (GES), entered into a Loan Agreement with RBC Bank (USA) (RBC) (RBC was subsequently acquired by PNC Bank) under which GES borrowed $3.6 million (the Loan Agreement). The Loan Agreement was to mature on, and all outstanding balances were due and payable on, October 31, 2016. The Company sold GES on November 1, 2013, at which time it repaid the loan in full.

The Company had entered into an interest rate swap to fix the interest rate on $1.9 million of the principal amount of the term loan at 6.56% through October 2016. This interest rate swap was being carried at fair-market value on the Company s books, with changes in value included in interest expense. The swap was terminated on November 1, 2013, when the Company paid off the Term Loan.

Note 8 Conversion of Subordinated Debt and Sale of Series A Preferred Stock

On September 23, 2013, the Company entered into a Preferred Stock and Warrant Purchase Agreement (the Series A Purchase Agreement) with a group of investors including Mr. Richard Kiphart, the Company s Chairman and largest individual stockholder, and Mr. Christopher Capps, a member of its Board of Directors (collectively with the other investors, the Investors). Pursuant to the terms of the Series A Purchase Agreement, the Investors purchased 926,223 shares of the Company s Series A Preferred Stock (the Series A Preferred Shares) at a price per Preferred Share of $10.00. The purchase price was paid with (a) $2,500,000 in cash and (b) the exchange of $6,779,950 (principal amount and accrued interest) of the Company s Subordinated Secured Convertible Pay-In-Kind Note (the Notes), representing all of the outstanding Notes.

The Series A Preferred Shares are entitled to an accruing dividend of 12.5% per annum of their original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations), payable semi-annually in arrears. Such dividends shall be paid in additional shares of Series A Preferred Stock at the original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) or, at the sole discretion of the Company s board of directors, in cash. The Company accrued dividends of $320 and $914 thousand on the Series A Preferred during the three and nine month periods ended September 30, 2014, respectively. On June 30, 2014, the Company satisfied $594 thousand of preferred dividends through the issuance of Series A Preferred shares and $320 thousand remains in Accrued Expenses.

The Series A Preferred Shares may be converted at the election of the holder of such shares, into shares of the Company s common stock at a conversion price which was initially equal to $3.78 per share (the Conversion Price). The Conversion Price is to be proportionately adjusted for stock splits, combinations and similar recapitalizations, and, subject to a floor of $3.50, shall be adjusted for future issuances of common stock (excluding certain issuances) at a price per share less than the Conversion Price on a broad based, weighted average basis. The Company can require conversion of the Series A Preferred Shares if the weighted average price for its common stock is at least two hundred percent (200%) of the Conversion Price for at least 20 trading days during a 30 trading day period ending within 5 trading days prior to the Company sending a notice of forced conversion to the holders of the Series A Preferred Shares. On December 30, 2013, as the result of the issuance of shares of Series B Convertible Preferred Stock, the Conversion Price of the Series A Preferred Shares was reduced to $3.58 per share. The Conversion Price was further reduced to $3.51 per share on February 4, 2014, when the Company issued additional shares of Series B Convertible Preferred Stock resulting in a $178 thousand non-cash deemed dividend. The deemed dividend was calculated as the increase in the value of the shares into which the Series A would be convertible resulting from the adjustment to the conversion price, based on the market price of our common stock on the date of the adjustment. This deemed dividend was recorded to dividend expense, with an offset to the additional paid in capital.

11

Table of Contents

The Company may redeem all or a portion of the Series A Preferred Shares at its option at any time unless prohibited by Delaware law governing distributions to stockholders. The redemption price for each Series A Preferred Share shall be its original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) plus any accrued but unpaid dividends multiplied by a factor based on the date the notice of such redemption is sent to holders of the Series A Preferred Shares. If such notice is sent before the second anniversary of the issuance of the Series A Preferred Shares, the factor shall be 102%, if thereafter but before the third such anniversary, the factor shall be 101% and thereafter, the factor shall be 100%.

In connection with the entry into the Series A Purchase Agreement, the Company issued the Investors warrants to purchase 264,551 shares of its common stock at $3.78 per share (the Series A Warrants). These warrants expire on the fifth anniversary of their issuance and contain a cashless exercise option. In recording the transaction, the Company allocated the value of the proceeds to the Series A Preferred Shares and the Series A Warrants based on their relative fair values. In doing so, it determined that the Series A Preferred Shares contained a beneficial conversion feature worth $415,000. The value of the beneficial conversion feature, along with the value of the warrants, also determined to be $415,000, where both considered to be non-cash deemed dividends and were recorded to dividend expense, with an offsetting entry to additional paid in capital in the third quarter of 2013.

The Series A Purchase Agreement requires that the Company seek stockholder approval of the conversion of the Series A Preferred Shares and the exercise of the Series A Warrants on or before December 31, 2013. The Company did seek such approval at its annual meeting of stockholders held on December 3, 2013, at which time stockholders approved the issuance of shares of the Company s common stock upon the conversion of the Series A Preferred Stock and the exercise of the Series A Warrants.

The Company used the cash proceeds from the sale of the Series A Preferred Shares for general corporate purposes.

Note 9 Subordinated Convertible Term Notes

2012 Notes:

On October 22, 2012, the Company entered into a Convertible Note and Warrant Purchase Agreement (the Sub Debt Purchase Agreement) with a group of investors including Mr. Richard Kiphart, the Company s Chairman and largest individual stockholder, and Mr. Christopher Capps, a member of its Board of Directors (collectively with the other investors, the Holders). Pursuant to the terms of the Sub Debt Purchase Agreement, the Holders lent the Company $6,050,000 under a Subordinated Secured Convertible Pay-In-Kind Note (the Notes). The Notes had a term of five years, accrued interest at the rate of 12.5% per year, payable semi-annually at the Company s election in cash or additional Notes. On September 23, 2013, the Notes and all accrued interest were converted to shares of Series A Preferred Stock (see Note 8 for additional information regarding the Series A Preferred Stock).

In connection with the entry into the Sub Debt Purchase Agreement, the Company issued the Holders warrants to purchase 644,991 shares of its common stock at $4.69 per share (the Sub Debt Warrants). These warrants expire on the fifth anniversary of their issuance and contain a cashless exercise option. The Company determined the value of the Sub Debt Warrants to be $1.4 million using a trinomial option pricing model.

12

Table of Contents

In recording the transaction, the Company allocated the value of the proceeds to the Notes and Sub Debt Warrants based on their relative fair values. In doing so, it determined that the Notes contained a beneficial conversion feature since the fair market value of the common stock issuable upon conversion of the Notes (determined on the Note issuance date) exceeded the value allocated to the Notes of $4,924,000. The Notes were convertible into 1,179,912 shares of common stock, which at the market price of $4.48 per share on date of issuance of the Notes was worth $5,286,000. The difference of $362 thousand between the market value of the shares issuable upon conversion and the value allocated to the Notes was considered to be the value of the beneficial conversion feature.

The value of the beneficial conversion feature and the value of the warrants were recorded as a discount to the Notes, which was being amortized over the term of the Notes using the effective interest method. Amortization of the discount of $132 thousand was included in interest expense for the six-month period ended June 30, 2013. Upon the conversion of the Notes to preferred stock in September 2013, the remaining unamortized discount of $1.2 million was recorded to interest expense.

The Company incurred costs of approximately $37 thousand to issue the Notes. These costs were capitalized and were also being amortized over the term of the Notes using the effective interest method. Amortization of the deferred issuance costs of $3 thousand was included in interest expense for the six-month period ended June 30, 2013. Upon the conversion of the Notes to preferred stock in September 2013, the balance of the deferred issuance costs of $30 thousand was recorded to interest expense.

The Company elected to pay the interest accrued through September 23, 2013, of $712,000 in additional Notes. The Notes issued in satisfaction of the accrued interest were also converted to shares of preferred stock on September 23, 2013 (see Note 8 for additional information regarding the Series A Preferred Stock).

2014 Notes:

On August 4, 2014, the Company entered into a Subscription Agreement (the Subscription Agreement) with a group of investors including Mr. Richard Kiphart (collectively with the other investors, the Note Holders). Pursuant to the terms of the Subscription Agreement, the Note Holders lent to the Company $1,000,000 under Subordinated Secured Convertible Pay-In-Kind Notes (the 2014 Notes). The 2014 Notes have a term of ten years and will accrue interest at the rate of 12.5% per year, payable semi-annually at the Company s election in cash or additional 2014 Notes. The Company accrued interest of $20 thousand during the three and nine months ended September 30, 2014.

The Note Holders are entitled to convert the 2014 Notes at any time, at their election, into shares of the Company s common stock at the Conversion Price (as such term is defined in the 2014 Notes). The Company can require conversion of the 2014 Notes if the weighted average price for the its common stock (i) during the period commencing on the issuance date and terminating on the first anniversary of the issuance date, is at least two hundred percent (200%) of the Conversion Price for at least 20 trading days during a 30-trading day period ending within five trading days prior to the Company sending a notice of forced conversion to the holders of the 2014 Notes, or (ii) during the period commencing on the day following the first anniversary of the issuance date and terminating on the maturity date, is at least one hundred seventy-five percent (175%) of the Conversion Price for at least 20 trading days during a 30-trading day period ending within five trading days prior to the Company sending a forced conversion notice to the holders of the 2014 Notes. The number of shares the Company shall be obligated to issue will be limited such that it would not violate any requirements of any exchange upon which it might be listed at the time of the conversion.

Table of Contents

The Note Holders can require that the Company redeem all or any portion of the 2014 Notes upon the occurrence of a Trigger Event. Trigger Events include (i) failure to have sufficient authorized shares at any time following the 60th day after issuance, (ii) failure to pay any amount of principal, interest or other amounts when and as due under the 2014 Notes, (iii) if the Company voluntarily or involuntarily seeks protection under bankruptcy laws, or (iv) if the Company breaches any representation, warranty or covenant or other term or condition of any transaction document. The Company is required to redeem the 2014 Notes upon a Change of Control (as such term is defined in the 2014 Notes) at the Change of Control Premium. The Change of Control Premium is defined as (i) 130% from the issuance date through the second anniversary of the issuance date, (ii) 120% after the second anniversary of the issuance date through the fourth anniversary of the issuance date and (iii) 100% thereafter. Under the terms of the Subscription Notes, the Company covenants not to (i) redeem debt that is subordinated to the 2014 Notes, or (ii) redeem, repurchase or declare or pay a cash dividend or distribution on its capital stock. The 2014 Notes are subordinated to (i) all commercial loans or other credit facilities that are or will be secured by all or substantially all of the assets of the Company and that have been approved by the Company s Board of Directors as senior in rank to the 2014 Notes and (ii) any and all obligations to the issuers of surety bonds and performance bonds for which the Company or any of its subsidiaries is the principal obligor.

The Company used the proceeds from the issuance of the 2014 Notes for general corporate purposes.

Note 10 Sale of Series B Preferred Stock

On December 30, 2013, the Company entered into a Preferred Stock and Warrant Purchase Agreement (the Series B Purchase Agreement) with a group of Series B Investors including Mr. Richard Kiphart, the Company s Chairman and largest individual stockholder (collectively with the other investors, the Series B Investors). Pursuant to the terms of the Series B Purchase Agreement, the Series B Investors purchased 400,000 shares of the Company s Series B Preferred Stock (the Series B Preferred Shares) at a price per Series B Preferred Share of $10.00.

On January 29, 2014, the Company entered into a Series B Purchase Agreement with Greener Capital Partners Fund II, L.P. (the Greener Capital), pursuant to which Greener Capital has purchased an aggregate of 200,000 shares of the Company s Series B Preferred Shares at a price per Preferred Share of $10.00. Greener Capital funded the purchase and the transaction closed on February 4, 2014.

The Series B Preferred Shares are entitled to an accruing dividend of 12.5% per annum of their original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations), payable semi-annually in arrears. Such dividends shall be paid in additional shares of Series B Preferred Stock at the original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) or, at the sole discretion of the Company s board of directors, in cash. The Company accrued dividends of $201 and $550 thousand on the Series B Preferred during the three and nine month periods ended September 30, 2014, respectively. On June 30, 2014, the Company satisfied $349 thousand of preferred dividends through the issuance of Series B Preferred Shares and $201 thousand remains in Accrued Expenses.

The Series B Preferred Shares may be converted, at any time following the approval of such conversion by the Company s stockholders, at the election of the holder of such shares, into shares of the Company s common stock at a conversion price which was initially equal to $2.83 per share (the Conversion Price). The Conversion Price shall be proportionately adjusted for stock splits, combinations and similar recapitalizations, and, subject to a floor of $2.50, shall be adjusted for future issuances of common stock

Table of Contents

(excluding certain issuances) at a price per share less than the Conversion Price on a broad based, weighted average basis. The Company can require conversion of the Series B Preferred Shares if the weighted average price for its common stock is at least two hundred percent (200%) of the Conversion Price for at least 20 trading days during a 30 trading day period ending within 5 trading days prior to the Company sending a notice of forced conversion to the holders of the Series B Preferred Shares.

The Company may redeem all or a portion of the Series B Preferred Shares at its option at any time, unless prohibited by Delaware law governing distributions to stockholders. The redemption price for each Series B Preferred Share shall be its original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) plus any accrued but unpaid dividends multiplied by a factor based on the date the notice of such redemption is sent to holders of the Series B Preferred Shares. If such notice is sent before the first anniversary of the issuance of the Series B Preferred Shares, the factor shall be 103%, if thereafter but before the second such anniversary, the factor shall be 102%, if thereafter but before the third such anniversary, the factor shall be 101% and thereafter, the factor shall be 100%.

In connection with the entry into the Series B Purchase Agreement, the Company issued the Series B Investors warrants to purchase 848,058 shares of its common stock at $2.83 per share (the Series B Warrants). These warrants expire on the fifth anniversary of their issuance and contain a cashless exercise option. The Warrants may not be exercised until the Company s common stockholders approve the exercise of the Warrants.

In recording the Series B transactions, the Company allocated the value of the proceeds to the Series B Preferred Shares and the Series B Warrants based on their relative fair values. In doing so, it determined that the Series B Preferred Shares contained a beneficial conversion feature. The value of the beneficial conversion feature, along with the value of the warrants, where both considered to be non-cash deemed dividends and were recorded to dividend expense, with an offsetting entry to additional paid in capital in the period in which the Series B Preferred was issued. Dividend expense for the nine-month period ended September 30, 2014, contains $832 thousand of such deemed dividends.

The Series B Purchase Agreement requires that the Company seek stockholder approval of the conversion of the Series B Preferred Shares and the exercise of the Series B Warrants on or before July 31, 2014. The Company received such approval at its annual meeting of stockholders held on June 25, 2014.

The Company used the cash proceeds from the sale of the Series B Preferred Shares for general corporate purposes.

Note 11 Sale of ESCO Business

On February 28, 2013, the Company sold its ESCO business to Powersecure, Inc., a wholly-owned subsidiary of PowerSecure International, Inc. (Powersecure). The ESCO business, which represented the largest portion of the Company s public sector business, designed, installed and maintained energy conservation measures, primarily as a subcontractor to large energy service company providers (ESCOs), for the benefit of public sector, commercial, industrial and institutional customers as end users. The sale was structured as an asset sale. The total purchase price for the assets sold was $4.0 million in cash, subject to a working capital adjustment, and the assumption of approximately $9.8 million of liabilities, comprising certain other debts, liabilities and obligations relating to the acquired business and assumed contracts. After application of the working capital adjustment in accordance with the Purchase Agreement, the cash purchase price is approximately $1.9 million, subject to

post-closing confirmation of the working capital

Table of Contents

adjustment, resulting in an effective purchase price, including the assumption of liabilities, of approximately $11.7 million. In connection with the acquisition of the ESCO business, PowerSecure assumed certain unfinished contracts and projects in the acquired business, along with the accounts receivables and accounts payables associated with those projects.

During the fourth quarter of 2012, utilizing the purchase price received for the sale of the ESCO business as an indication of its fair market value, the Company determined that its carrying value associated with the business exceeded the fair market value by approximately $3.2 million. Accordingly, it reduced the carrying value to the fair market value, recording a $3.2 million impairment loss in the process.

After adjusting the carrying value of the assets during the fourth quarter of 2012, the net carrying value of the assets and liabilities of the ESCO business was equal to the proceeds received for the sale of the business on February 28, 2013, therefore there was no gain or loss resulting from the sale recorded during the first quarter of 2013. However, the Asset Purchase Agreement provided that within 90 days of the closing the seller provide the buyer a final calculation of the Closing Net Working Capital as of February 28, 2013. To the extent that this calculation showed an increase in the Closing Net Working Capital from the amount estimated on the closing date, the buyer would owe the seller an amount equal to the increase and to the extent the Closing Net Working Capital was less than the amount estimated on the closing date, the seller would owe the buyer an amount equal to the reduction. The calculation of the final Closing Net Working Capital was completed in August 2013 and it was determined that the buyer owed the seller an additional $128 thousand. This additional consideration was included in income from discontinued operations during the quarter ended September 30, 2013.

Note 12 Discontinued Operations

As discussed in Note 11, the Company sold the majority of its public sector business on February 28, 2013 to PowerSecure. During the third quarter of 2013, the Company s board of directors authorized management to sell or dispose of GES-Port Charlotte, its contract with the Army Corp. of Engineers under the Federal Renewal and Renovation program (the FRR contract), and the regional service business located in Bethlehem, Pennsylvania. These businesses, along with the remaining public sector business, which the Company is in the process of exiting, and Asset Development business, which the Company shut down at the end of 2012, have all been reported as discontinued operations in the accompanying financial statements.

The revenue and operating profit (loss) related to discontinued operations were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	$ 450	$ 1,546	$ 633	$ 6,018
Operating profit (loss)	$ 136	$ (329)	$ 187	$ (3,504)

The assets and liabilities related to discontinued operations were as follows (in thousands):

16

Table of Contents

	September 30, 2014	December 31, 2013
Accounts receivable	$ 957	$ 2,423
Costs and estimated earnings in excess of billings on uncompleted contracts	775	1,019
Total current assets	1,732	3,442
Total Assets	$ 1,732	$ 3,442
Accounts payable	$ 811	$ 2,240
Accrued expenses	114	504
Billings in excess of costs and estimated earnings on uncompleted contracts	192	460
Customer deposits	18	41
Total current liabilities	1,135	3,245
Total Liabilities	$ 1,135	$ 3,245

Note 13 Business Segment Information

With the sale of the public sector business and renewable energy business during 2013, all of the Company s remaining operations are focused on one business segment, its energy efficiency segment.

Note 14 Other Equity Issuances

During three and nine months ended September 30, 2014, the Company granted 24,998 and 59,248 shares, respectively, of restricted stock to its outside directors pursuant to the 2010 Non-Employee Directors Stock Plan as compensation for their service on the Board. The shares granted under the 2010 Non-Employee Directors Stock Plan vest 50% upon grant and 50% on the first anniversary of the grant date if the director is still serving on the Company s board of directors on the vesting date. The Company also issued 25,157 shares of restricted stock to its Chief Executive Officer and 5,000 shares to its Chief Financial Officer pursuant to its 2008 Employee Long-term Incentive Plan during the nine months ended September 30, 2014. These shares vest one-third on each of December 31, 2014, 2015 and 2016, if the holder is still an employee of the Company on the vesting date.

Note 15 Letter of Credit Agreement

On December 7, 2012, the Company entered into a Letter of Credit Agreement (the Agreement) with Richard P. Kiphart, the Company s Chairman and largest individual stockholder. Pursuant to the Agreement, Mr. Kiphart agreed to cause the issuance of one or more Letters of Credit (collectively, the Letter of Credit) for the benefit of a surety at the Company s request, up to an aggregate amount of $1,000,000. The Letter of Credit is being used to support the issuance of performance bonds required by certain of the Company s contracts with Public Sector customers. Mr. Kiphart s obligation to cause the issuance of, or leave in place, the Letter of Credit was to terminate on December 7, 2013, however he has

Table of Contents

agreed to extend his support for outstanding Letters of Credit until the projects they are associated with are completed sometime in 2014.

The Company has agreed to indemnify Mr. Kiphart for any liability in connection with any payment or disbursement made under the Letter of Credit. The Company will also pay all of Mr. Kiphart s fees and out-of-pocket expenses incurred in connection with the Letter of Credit. All such indemnification, fees and expenses will be payable by the Company within ten business days of the Company s receipt of Mr. Kiphart s written demand.

On August 1, 2014, the Company entered into a Letter of Credit Agreement (the LOC Agreement) with Richard P. Kiphart, the Company s Chairman and largest individual stockholder. Pursuant to the LOC Agreement, Mr. Kiphart agreed to cause the issuance of one or more Letters of Credit (collectively, the Kiphart Letter of Credit) for the benefit of a surety at the Company s request, up to an aggregate amount of $1,300,000. The Kiphart Letter of Credit is being used to guarantee certain obligations of the Company in connection with its performance under the Company s contract with Duke Energy. Mr. Kiphart s obligation to cause the issuance of, or leave in place, the Kiphart Letter of Credit will terminate on December 31, 2019. The Company has agreed to indemnify Mr. Kiphart for any liability in connection with any payment or disbursement made under the Kiphart Letter of Credit. The Company will also pay all of Mr. Kiphart s fees and out-of-pocket expenses incurred in connection with the Kiphart Letter of Credit. All such indemnification, fees and expenses will be payable by the Company within ten business days of the Company s receipt of Mr. Kiphart s written demand.

Pursuant to the LOC Agreement, the Company issued to Mr. Kiphart a warrant (the LOC Warrant) to purchase 50,000 shares of the Company s common stock as consideration for his obligations under the LOC Agreement. The LOC Warrant was issued on August 12, 2014 at an exercise price of $4.04 based on the closing bid price of our stock on the date of issuance. The LOC Warrant has a five year term and may be exercised on a cashless basis at Mr. Kiphart s election. In addition, the Company has agreed to pay to Mr. Kiphart simple interest at six percent per annum on the aggregate amount of the Kiphart Letter of Credit. The Company accrued interest of $15 thousand during the three and nine month periods ended September 30, 2014.

Note 16 Commitments and Contingencies

The Company carries Directors and Officers insurance with an aggregate limit of $10 million, which it anticipates will cover the cost of defending an existing class action suit and derivative action and any related awards or settlements, up to the limit of the policy. At this point in the legal process, the Company estimates that its reasonably possible costs, over and above the amounts covered by insurance, of responding to these lawsuits, responding to the SEC investigation and completing its internal investigation and restatement will be between $6.5 million and $7.0 million, of which $6.1 million had been incurred through September 30, 2014. There are many factors that could cause the actual costs to exceed or be less than this estimate; therefore the Company has not accrued for these potential future costs.

Note 17 Legal Matters

Satterfield v. Lime Energy Co. et al., Case No. 12-cv-5704 (N.D. Ill.): This is a putative class action on behalf of purchasers of our securities between May 14, 2008 and December 27, 2012, inclusive. Following an announcement by us dated July 17, 2012, four separate putative class actions

Table of Contents

were filed alleging violations of the federal securities laws and naming as Defendants the Company and two of its former officers, John O Rourke and Jeffrey Mistarz. The four cases were consolidated.

Pursuant to the Private Securities Litigation Reform Act of 1995 (the PSLRA), on October 26, 2012, the Court appointed Lead Plaintiffs. Lead Plaintiffs filed a Consolidated Amended Class Action Complaint on January 18, 2013, alleging that Defendants issued false and misleading statements concerning Lime Energy s revenues during the class period and thereby artificially inflated our stock price. On January 21, 2014, following several months of arm s length negotiations, the Lead Plaintiffs and Defendants entered into a stipulation of settlement under which this matter would be fully and finally settled. As part of the settlement, Defendants agreed to cause $2.5 million to be paid into a settlement fund, which $2.5 million has been provided by the Company s directors and officers liability insurers. On January 28, 2014, Judge Sara Ellis entered an order granting preliminary approval of the class action settlement and notice to the settlement class in the matter. On June 4, 2014, Judge Sara Ellis entered an order granting final approval of the class action settlement and notice to the settlement class in the matter *Satterfield v. Lime Energy Co. et al.*, Case No. 12-cv-05704.

Kuberski v. Lime Energy Co. et al., Case No. 12-cv-7993 (N.D. Ill.): This is a putative shareholder derivative action alleging that certain of our officers and directors breached their fiduciary duties to the Company from May 14, 2008 through the present by failing to maintain adequate internal controls and causing the Company to issue false and misleading statements concerning our revenues. An initial derivative complaint was filed on October 5, 2012. A second derivative action was filed on March 5, 2013. The two cases were consolidated and the Court appointed Lead Counsel for the Plaintiffs on April 9, 2013. On May 9, 2013, the Plaintiffs filed a Verified Consolidated Shareholder Derivative Complaint. On June 10, 2013, Defendants filed a motion to dismiss for failure to make a demand on the Board of Directors of the Company or to adequately plead why demand should be excused, as required by Rule 23.1 of the Federal Rules of Civil Procedure and Delaware law. Briefing on the motion to dismiss was completed as of July 22, 2013. On March 25, 2014, the Court granted Defendants motion to dismiss and dismissed the case with prejudice. On April 22, 2014, Plaintiffs filed a motion for reconsideration of the Court s ruling. On June 25, 2014 the Court denied the Plaintiffs motion for reconsideration. The parties are currently in mediation and settlement negotiations, and the court suspended the appeal during the mediation process. Defendants are in favor of settling and are actively working towards reaching a mutual settlement position.

*SEC Investigatio*n: The SEC is conducting an investigation of our revenue recognition practices and financial reporting. On September 11, 2012, the Commission issued a subpoena for documents. On July 25, 2014, the SEC asked for some additional documentation and asked to schedule three interviews. We are cooperating with the Commission s investigation.

In accordance with ASC 450, Contingencies, and related guidance, we record reserves for estimated losses relating to claims and lawsuits when available information indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. The Company expenses legal costs as they are incurred. We are not aware of pending claims or assessments, other than as described above, which may have a material adverse impact on our liquidity, financial position, results of operations, or cash flows.

Table of Contents

ITEM 2. **MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion regarding the Company along with our financial statements and related notes included in this quarterly report. This quarterly report, including the following discussion, contains forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results, performance and achievements in 2014 and beyond may differ materially from those expressed in, or implied by, these forward-looking statements. See Cautionary Note Regarding Forward-Looking Statements.

Overview

We are a leader in designing and implementing energy efficiency programs that enable our utility clients to reach their underserved markets and achieve their energy reduction goals. Utility-sponsored energy efficiency programs help reduce customer demand for electricity. Using less electricity when demand is high (like on a hot summer day) can mean fewer new power plants and a smaller electric distribution system, which saves money and benefits the environment. We offer utilities energy efficiency program delivery services targeted to their small and medium-sized business customers. Our programs help these businesses use less energy through the upgrade of existing equipment with new, more energy efficient equipment. This service allows the utility to delay investments in transmission and distribution upgrades and new power plants, while at the same time providing benefits to their clients in the form of lower energy bills, improved equipment reliability, reduced maintenance costs and a better overall operating environment.

Our eight energy efficiency programs operate exclusively within the utility sector and our clients include two of the five largest investor-owned utilities in the country. We focus on deploying direct install energy efficiency solutions for small and mid-size commercial and industrial business programs that improve energy efficiency, reduce energy-related expenditures and lessen the impact of energy use on the environment. Currently, these solutions include energy efficient lighting upgrades and energy efficient mechanical upgrades. We also have expertise in water conservation, building controls, refrigeration and facility weatherization. We are prepared to offer these measures should they become eligible within a utility program. Our small business direct install (SBDI) programs provide a cost-effective avenue for our utility clients to offer products and services to a hard-to-reach customer base, while satisfying aggressive state-mandated energy reduction goals. Our direct install model is a turnkey solution under which we contract with our utility clients to design and market their small and mid-size energy efficiency programs within a defined territory, perform the technical audits, sell the solution to the end-use customer and oversee the implementation of the energy efficiency measures. This model makes it easy and affordable for small businesses to upgrade to new, more energy efficient equipment.

Events Impacting Future Results

On July 29, 2014, the Company announced that it was awarded a contract by Duke Energy for a small business energy saver program. As previously disclosed, the program targets small business customers in the Carolinas with an average electric demand of 100 kW or less. This new award expands the program to a broader territory in North and South Carolina and extends the program for five years. Among other things, the Company will perform energy usage and equipment assessments of small business facilities and perform upgrades to those facilities through its network of contractors. The actual impact of this award on the Company s revenues will depend on the Company s ability to sell sufficient program services.

Table of Contents

Results of Operations

Revenue

We generate the majority of our revenue from the sale of our services and the products that we purchase and resell to our clients. We charge our clients based upon an agreed to rate schedule based on the item installed or the savings generated. A typical project for a small business utility client can take anywhere from a few hours to a few weeks to complete.

Gross Profit

Gross profit equals our revenue less costs of sales. The cost of sales for our business consists primarily of materials, our internal labor, including engineering, and the cost of subcontracted labor.

Gross profit is a key metric that we use to evaluate our performance. Gross profit depends in large part on the volume and mix of products and services that we sell during any given period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) include the following components:

- direct labor and commission costs related to our employee sales force;
- costs of our non-production management, supervisory and staff salaries and employee benefits, including the costs of share-based compensation;
- costs related to insurance, travel and entertainment, office supplies and utilities;
- costs related to marketing and advertising our products;

- legal and accounting expenses; and

- costs related to administrative functions that serve to support our existing businesses, as well as to provide the infrastructure for future growth.

Amortization of Intangibles

When we acquire companies we allocate the purchase price to tangible assets (such as property, equipment, accounts receivable, etc.), and identifiable intangible assets (such as contract backlogs, customer lists, technology, trade name, etc.), with the balance recorded as goodwill. We amortize the value of certain intangible assets over their estimated useful lives as a non-cash expense.

Interest Expense, Net

Net interest expense consists of interest expense net of interest income. Net interest expense represents the interest costs associated with our subordinated convertible term notes (including amortization of the related

Table of Contents

debt discount and issuance costs). Interest income includes earnings on our invested cash balances and amortization of the discount on our long-term receivables.

Three months Ended September 30, 2014 Compared to Three months Ended September 30, 2013

Consolidated Results (in thousands)

	Three Months Ended September 30,		Change	
	2014	2013	$	%
Revenue	$ 15,585	$ 13,354	$ 2,231	16.7%
Cost of sales	10,735	9,651	1,084	11.2%
Gross profit	4,850	3,703	1,147	31.0%
Selling, general and administrative expenses	4,887	5,697	(810)	-14.2%
Operating loss	(37)	(1,994)	1,957	-98.1%
Interest expense, net	(8)	(1,517)	1,509	-99.5%
Loss from continuing operations	(45)	(3,511)	3,466	-98.7%
Income (Loss) from operation of discontinued business	136	(329)	465	-141.3%
Net Income (Loss)	$ 91	$ (3,840)	$ 3,931	-102.4%

The following table presents the percentage of certain items to revenue:

	Three Months Ended September 30,	
	2014	2013
Revenue	100.0%	100.0%
Cost of sales	68.9%	72.3%
Gross profit	31.1%	27.7%
Selling, general and administrative expenses	31.4%	42.7%
Operating loss	-0.2%	-14.9%
Interest expense, net	-0.1%	-11.4%
Loss from continuing operations	-0.3%	-26.3%

Income (Loss) from operation of discontinued business	0.9%	-2.5%
Net Income (Loss)	0.6%	-28.8%

Table of Contents

Revenue. Our consolidated revenue increased $2.2 million, or 16.7%, to $15.6 million during the third quarter of 2014, from $13.4 million during the third quarter of 2013. The increase in revenue was driven primarily by higher revenue from new utility programs which were in the process of starting up during 2013. All the programs are now up and running and therefore we expect our growth in future periods to continue to moderate, unless there is an increase or decrease in the number of programs on which we are working.

Gross Profit. The increase in revenue, in combination with an improved gross profit margin, led to a $1.1 million, or 31.0%, increase in our gross profit during the third quarter of 2014 when compared to the third quarter of 2013. Our gross profit margin improved from 27.7% during the third quarter of 2013 to 31.1% during the third quarter of 2014. This improvement in our gross profit margin was the result of improved efficiencies in existing programs and higher margin contributions from new and/or renewed programs. We believe our gross profit margin will remain in the range of that earned during the third quarter of this year, however it will fluctuate up or down depending on the level of contribution from individual programs, all of which have slightly different margin profiles. The gross profit margin we earn in the future may also be affected by the addition of new programs or the loss of any of the existing programs.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses declined $810 thousand, or 14.2%, to $4.9 million during the three-month period ended September 30, 2014, from $5.7 million for same period in 2013. Costs related to the restatement we completed in July 2013, the stockholder lawsuits and the SEC investigation, totaled $94 thousand during the current quarter, which was $562 thousand lower than the $656 thousand incurred during the third quarter of 2013. When adjusted for these charges, our SG&A expense declined $246 thousand, or 4.9%, to $4.8 million during the third quarter of 2014 from $5.0 million during the third quarter of 2013. Utility program related SG&A expense decreased approximately $21 thousand and overhead-related SG&A expense decreased by approximately $225 thousand as the result of cost cutting measures implemented in late 2013. We expect these initiatives to reduce overhead costs will contribute to continued reductions in our SG&A expense relative to 2013 for the balance of 2014.

Interest Expense, Net. Net interest expense decreased $1.5 million, to $8 thousand during the third quarter of 2014, compared to $1.5 million of expense during the third quarter of 2013. The components of interest expense for the three-month periods ended September 30, 2014 and 2013 are as follows (in thousands):

Three months ended September 30,	**2014**	**2013**
Letter of credit	$ 15	$
Subordinated notes	20	191
Total contractural interest	35	191
Amortiztion of deferred issuance costs		32
Amortization of debt discount		1,307
Total interest expense	$ 35	$ 1,530

Table of Contents

Interest Expense for the third quarter of 2014 was related to the outstanding subordinated notes and the letter of credit. Interest expense for the third quarter of 2013 was related to the subordinated notes and the conversion of the notes to preferred stock, at which time we expensed the unamortized deferred issuance costs and debt discount.

Our interest income increased $14 thousand to $27 thousand during the third quarter of 2014, from $13 thousand earned during the third quarter of 2013. Substantially all of the interest income during both periods represented amortization of the discount on our long-term receivables. The increase in amortization was due to an increase in our long-term receivable balances. We expect continued increases in our long-term receivable balances in the future due to increased use of extended payment terms by customers under some of our utility programs.

Preferred Stock Dividends

The components of dividend expense are as follows (in thousands):

Three months ended September 30,	**2014**	**2013**
Series A dividend	$ 320	$ 22
Series B dividend	201	
Total dividend expense	$ 521	$ 22

During the third quarter of 2014, we accrued dividends of $320 thousand on our Series A Preferred Stock and $201 thousand on our Series B Preferred Stock.

Nine months Ended September 30, 2014 Compared to Nine months Ended September 30, 2013

	Nine Months Ended September 30,		**Change**	
	2014	**2013**	**$**	**%**
Revenue	$ 41,456	$ 37,513	$ 3,943	10.5%
Cost of sales	28,462	27,433	1,029	3.8%
Gross profit	12,994	10,080	2,914	28.9%
Selling, general and administrative expenses	14,463	17,142	(2,679)	-15.6%
Amortization of intangibles		10	(10)	-100.0%
Operating loss	(1,469)	(7,072)	5,603	-79.2%
Interest income (expense), net	31	(2,013)	2,044	-101.5%
Loss from continuing operations	(1,438)	(9,085)	7,647	-84.2%
Income (Loss) from operation of discontinued business	187	(3,504)	3,691	-105.3%

Net loss	$	(1,251)	$	(12,589)	$	11,338	-90.1%

The following table presents the percentage of certain items to revenue:

Table of Contents

	Nine Months Ended September 30,	
	2014	2013
Revenue	100.0%	100.0%
Cost of sales	68.7%	73.1%
Gross profit	31.3%	26.9%
Selling, general and administrative expenses	34.9%	45.7%
Amortization of intangibles	0.0%	0.0%
Operating loss	-3.5%	-18.9%
Interest income (expense), net	0.1%	-5.4%
Loss from continuing operations	-3.5%	-24.2%
Income (Loss) from operation of discontinued business	0.5%	-9.3%
Net loss	-3.0%	-33.6%

Revenue. Our consolidated revenue increased $4.0 million, or 10.5%, to $41.5 million during the first nine months 2014, from $37.5 million during the first nine months of 2013. The increase in revenue was driven primarily by higher revenue from new utility programs which were in the process of starting up during 2013. All the programs are now up and running and at close to steady state levels, therefore we expect our growth in future periods to continue to moderate, unless there is an increase or decrease in the number of programs on which we are working.

Gross Profit. The increase in revenue, in combination with an improved gross profit margin, led to a $2.9 million, or 28.9%, increase in our gross profit during the first nine months of 2014 when compared to the first nine months of 2013. Our gross profit margin improved from 26.9% during the first nine months of 2013 to 31.3% during the first nine months of 2014. This improvement in our gross profit margin was the result of improved efficiencies in existing programs and higher margin contributions from new and/or renewed programs. We believe our gross profit margin will remain in the range of that earned during the first nine months of this year, however it will fluctuate up or down depending on the level of contribution from individual programs, all of which have slightly different margin profiles. The gross profit margin we earn in the future may also be affected by the addition of new programs or the loss of any of the existing programs.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses declined $2.7 million, or 15.6%, to $14.5 million during the first nine months of 2014, from $17.1 million for the same period in 2013. Costs related to the restatement we completed in July 2013, the stockholder lawsuits and the SEC investigation, totaled $690 thousand during the first nine months of 2014, which was $1.5 million lower than the $2.2 million incurred during the first nine months of 2013. When adjusted for these charges, our SG&A expense declined $1.1 million, or 7.7%, to $13.8 million during the first nine months of 2014 from $14.9 million during the first nine months of 2013. Utility program related SG&A expense decreased approximately $495 thousand and overhead-related SG&A expense decreased by approximately $650 thousand as the result of cost cutting measures implemented in late 2013. We expect these initiatives to reduce overhead costs will contribute to continued reductions in our SG&A expense relative to 2013 for the balance of 2014.

Table of Contents

Amortization of Intangibles. Intangible assets associated with the continuing business became fully amortized during the first nine months of 2013, as a result there was no amortization expense for 2014. Amortization expense for the first nine months of 2013 totaled $10 thousand.

Interest Expense, Net. Net interest expense decreased $2 million, to $31 thousand of income during the first nine months of 2014, compared to $2 million of expense during the first nine months of 2013. The components of interest expense for the nine-month periods ended September 30, 2014 and 2013 are as follows (in thousands):

Nine months ended September 30,	**2014**	**2013**
Letter of credit	$ 15	$ 3
Subordinated notes	20	575
Total contractural interest	35	578
Amortiztion of deferred issuance costs		35
Amortization of debt discount		1,439
Total interest expense	$ 35	$ 2,052

Interest expense for the first nine months of 2014 related to outstanding subordinated notes and the letter of credit. Interest expense for the first nine months of 2013 was related to the outstanding subordinated notes and the conversion of the notes to preferred stock at which time we expensed the unamortized deferred issuance costs and debt discount.

Our interest income increased $27 thousand to $66 thousand during the first nine months of 2014, from $39 thousand earned during the first nine months of 2013. Substantially all of the interest income during both periods represented amortization of the discount on our long-term receivables. The increase in amortization was due to an increase in our long-term receivable balances. We expect continued increases in our long-term receivable balances in the future due to increased use of extended payment terms by customers under some of our utility programs.

Preferred Stock Dividends

The components of dividend expense are as follows (in thousands):

Nine months ended September 30,	**2014**	**2013**
Series A dividend	**$** 914	$ 22
Series B dividend	550	
Deemed dividend on Series A	178	
Deemed dividend on Series B	832	
Total dividend expense	**$** 2,474	$ 22

Table of Contents

During the first nine months of 2014, we paid dividends through the issuance of additional preferred shares of $594 thousand on our Series A Preferred Stock and $349 thousand on our Series B Preferred Stock and accrued dividends on Series A Preferred Stock of $320 thousand and Series B Stock of $201 thousand.

We also raised an additional $2 million through the sale of shares of our Series B Preferred Stock during the first quarter of 2014. The price at which the Series B Preferred Stock is convertible into shares of our common stock is lower than the price at which shares of the Series A Preferred Stock are convertible. An anti-dilution provision of the Series A Preferred Stock required us to adjust the conversion price of the Series A Preferred Stock from $3.58 per share to $3.51 per share, resulting in a $178 thousand non-cash deemed dividend. The deemed dividend was calculated as the increase in the value of the shares into which the Series A would be convertible resulting from the adjustment to the conversion price, based on the market price of our common stock on the date of the adjustment. This deemed dividend was recorded to dividend expense, with an offset to the additional paid in capital.

In recording the sale of the Series B Preferred Stock, we allocated the value of the proceeds to the sale of the shares and the warrants based on their relative fair values. In doing so, we determined that the preferred shares contained a beneficial conversion feature valued at $480 thousand. The value of the beneficial conversion feature, along with the value of the warrants, determined to be $352 thousand, where both considered to be non-cash deemed dividends and were recorded to dividend expense, with an offsetting entry to additional-paid-in-capital.

Liquidity and Capital Resources

As of September 30, 2014, we had cash and cash equivalents of $1.8 million (including restricted cash of $500 thousand), compared to $7.4 million (including $500 thousand of restricted cash) as of December 31, 2013.

Our principal cash requirements are for operating expenses, the funding of accounts receivable, and capital expenditures. We have financed our operations since inception primarily through the sale of equity, as well as various forms of secured debt.

Three months Ended September 30, 2014 Compared to Three months Ended September 30, 2013

The following table summarizes, for the periods indicated, selected items in our consolidated statements of cash flows (in thousands):

Table of Contents

Three months ended September 30,	2014	2013
Net cash used in operating activities	$ (40)	$ (1,666)
Net cash used in investing activities	(169)	(21)
Net cash provided by financing activities	998	2,428
Net Increase in Cash and Cash Equivalents	$ 789	$ 741
Cash and Cash Equivalents, at beginning of period	504	1,906
Cash and Cash Equivalents, at end of period	$ 1,293	$ 2,647

Net unrestricted cash increased $789 thousand during the three-month period ended September 30, 2014 as compared to $741 thousand during the same period in 2013.

Operating Activities

Operating activities consumed cash of $40 thousand during the three-month period ended September 30, 2014 as compared to consuming cash of $1.7 million during the same period of 2013.

Whether cash is consumed or generated by operating activities is a function of the profitability of our operations and changes in working capital. To get a better understanding of cash sources and uses, our management splits the cash used or provided by operating activities into two pieces: the cash consumed or generated by operating activities before changes in assets and liabilities; and the cash consumed or generated from changes in assets and liabilities. By splitting the cash used or provided by operating activities this way our management believes it is easier to understand how much of our operating cash flow is the result of the Company s current period cash earnings or loss and how much of our operating cash flow is due to changes in working capital. These two measures are calculated as follows (in thousands):

Table of Contents

Three Months Ended September 30,	2014	2013
Net Income (Loss)	$ 91	$ (3,840)
Provision for bad debt	320	432
Share-based compensation	46	115
Depreciation and amortization	177	261
Asset Impairment		27
PIK notes issued for interest		191
Amortization of deferred financing costs		56
Amortization of original issue discount		1,307
Loss on disposition of property and equipment		(148)
Cash generated (consumed) by operating activities before changes in assets and liabilities	$ 634	$ (1,599)
Changes in assets and liabilities, net of business dispositions:		
Accounts receivable	$ (1,661)	$ (626)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,422)	(32)
Prepaid and other	(33)	152
Assets of discontinued operations	413	107
Accounts payable	4,198	2,675
Accrued expenses		180
Billings in excess of costs and estimated earnings on uncompleted contracts	(14)	(1,150)
Other current liabilities	(854)	(692)
Liabilities of discontinued operations	(301)	(681)
Cash consumed by changes in assets and liabilities	$ (674)	$ (67)

The reconciliation to net cash used in operating activities as reported on our Consolidated Statement of Cash Flows is as follows (in thousands):

Three Months Ended September 30,	2014	2013
Cash generated (consumed) by operating activities before changes in assets and liabilities	$ 634	$ (1,599)
Cash consumed by changes in assets and liabilities	(674)	(67)
Net cash used in operating activities	$ (40)	$ (1,666)

The cash generated by operating activities before changes in assets and liabilities increased $2.2 million to $634 thousand, during the third quarter of 2014 as compared to consuming $1.6 million during the

Table of Contents

third quarter of 2013. This improvement was the result of a reduction in the cash loss (net income excluding non-cash items) for the quarter resulting from improvements in the gross profit earned, reductions in SG&A expense and a reduction in the loss from discontinued operations. We believe that continued improvements in all these areas and a reduction in the restatement and lawsuit related expenses will lead to continued improvements in this measure of cash flow in future periods.

Changes in assets and liabilities consumed cash of approximately $674 thousand during the third quarter of 2014, compared to $67 thousand during the third quarter of 2013. We expect to consume more modest amounts of cash from changes in working capital related assets and liabilities in future periods, as we continue to bring many of our accounts payable balances back into agreed terms with vendors and if our sales grow as we anticipate they will.

Investing Activities

We consumed $169 thousand of cash in investing activities during the third quarter of 2014, compared to $21 thousand during the third quarter of 2013. All of the cash consumed during the third quarter of 2014 was for capital expenditures, the largest portion of which was used to continue to develop the software platform used by our utility programs. We expect to make additional investment in our software platform in future periods as we continue to add to its capabilities in order to increase our operating efficiencies and the value of our programs to our customers.

Financing Activities

During the third quarter of 2014 financing activities generated $1.0 million of cash related to the issuance of convertible notes, while during the third quarter of 2013 we raised $2.5 million of cash through the issuance of preferred shares. This was partially offset by $60 thousand of scheduled principal payments on debt.

Nine months Ended September 30, 2014 Compared to Nine months Ended September 30, 2013

The following table summarizes, for the periods indicated, selected items in our consolidated statements of cash flows (in thousands):

Nine months ended September 30,	**2014**	**2013**
Net cash used in operating activities	$ (8,193)	$ (3,268)
Net cash (used in) provided by investing activities	(443)	1,552
Net cash provided by financing activities	2,989	2,351
Net (Decrease) Increase in Cash and Cash Equivalents	$ (5,647)	$ 635
Cash and Cash Equivalents, at beginning of period	6,940	2,012

Cash and Cash Equivalents, at end of period	$	1,293	$	2,647

Table of Contents

Operating Activities

Operating activities consumed cash of $8.2 million during the nine-month period ended September 30, 2014 as compared to consuming cash of $3.3 million during the same period of 2013.

Whether cash is consumed or generated by operating activities is a function of the profitability of our operations and changes in working capital. To get a better understanding of cash sources and uses, our management splits the cash used or provided by operating activities into two pieces: the cash consumed or generated by operating activities before changes in assets and liabilities; and the cash consumed or generated from changes in assets and liabilities. By splitting the cash used or provided by operating activities this way our management believes it is easier to understand how much of our operating cash flow is the result of the Company s current period cash earnings or loss and how much of our operating cash flow is due to changes in working capital. These two measures are calculated as follows (in thousands):

Nine Months Ended September 30,		**2014**		**2013**
Net Loss	$	(1,251)	$	(12,589)
Provision for bad debt		688		773
Share-based compensation		237		492
Depreciation and amortization		546		793
Asset impairment				27
PIK notes issued for interest				575
Amortization of deferred financing costs				108
Amortization of original issue discount				1,439
Loss on disposition of property and equipment				(136)
Cash generated (consumed) by operating activities before changes in assets and liabilities	$	220	$	(8,518)
Changes in assets and liabilities, net of business acquisitions and dispositions:				
Accounts receivable	$	(2,021)	$	(362)
Inventories				3
Costs and estimated earnings in excess of billings on uncompleted contacts		(2,080)		(1,756)
Prepaid and other		(265)		116
Assets of discontinued operations		1,710		1,695
Accounts payable		1,826		7,217
Accrued expenses		(1,648)		428
Billings in excess of costs and estimated earnings on uncompleted contracts		(1,306)		(841)
Other current liabilities		(2,518)		(1,202)
Liabilities of discontinued operations		(2,111)		(48)
Cash (consumed) generated from changes in assets and liabilities	$	(8,413)	$	5,250

Table of Contents

The reconciliation to net cash used in operating activities as reported on our Consolidated Statement of Cash Flows is as follows (in thousands):

Nine Months Ended September 30,		**2014**		**2013**
Cash generated (consumed) by operating activities before changes in assets and liabilities	$	220	$	(8,518)
Cash (consumed) generated from changes in assets and liabilities		(8,413)		5,250
Net cash used in operating activities	$	(8,193)	$	(3,268)

The cash consumed by operating activities before changes in assets and liabilities declined $8.7 million to generating $220 thousand, during the first nine months of 2014 as compared to consuming $8.5 million during the first nine months of 2013. This improvement was the result of a reduction in the cash loss (net income excluding non-cash items) for the first nine months of 2014 resulting from improvements in the gross profit earned, reductions in SG&A expense and a reduction in the loss from discontinued operations. We believe that continued improvements in all these areas and a reduction in the restatement and lawsuit related expenses will lead to continued improvements in this measure of cash flow in future periods.

Changes in assets and liabilities consumed cash of approximately $8.4 million during the first nine months of 2014, compared to generating $5.3 million during the first nine months of 2013. During the first nine months of 2014, we used the funds raised in late December 2013, January 2014, and August 2014 to bring many of our accounts payables back into agreed to terms with our vendors. We expect to consume more modest amounts of cash from changes in working capital related assets and liabilities in future periods, as we continue to work down our accounts payable balances and if our sales grow as we anticipate they will.

Investing Activities

We consumed $443 thousand of cash in investing activities during the first nine months of 2014, compared to generating $1.6 million during the first nine months of 2013. All of the cash consumed during the first nine months of 2014 was for capital expenditures, the largest portion of which was used to continue to develop the software platform used by our utility programs. During the first nine months of 2013, we received $2.0 million from the sale of our ESCO business, which was partially offset by capital expenditures totaling $437 thousand. The capital expenditures made during the first nine months of 2013 were related to the opening of offices to support new utility programs and expenditures on our software platform. We expect to make additional investment in our software platform in future periods as we continue to add to its capabilities in order to increase our operating efficiencies and the value of our programs to our customers.

Financing Activities

During the first nine months of 2014, financing activities generated $3.0 million of cash, while during the first nine months of 2013 financing activities generated $2.4 million of cash. During the nine-month period ended September 30, 2014, we raised $2.0 million through the sale of series B preferred shares and $1.0

Table of Contents

million from the issuance of subordinated convertible pay-in-kind notes. This was partially offset by $11 thousand of costs related to the preferred stock issuance. During the first nine months of 2013, we raised $2.5 million through the sale of series A preferred shares. This was partially offset by $137 thousand of scheduled principal payments on debt and $12 thousand of costs related to the preferred stock issuance.

SOURCES OF LIQUIDITY

Our primary sources of liquidity are our available, unrestricted cash reserves.

Our ability to continue to expand the sales of our services will require the continued commitment of significant funds. The actual timing and amount of our future funding requirements will depend on many factors, including the amount, timing and profitability of future revenues, working capital requirements, the level and amount of our sales efforts, among other things.

We have raised a significant amount of capital since our formation through the issuance of shares of our common and preferred stock, all of which have allowed us to continue to execute our business plan. Most of these funds have been consumed by operating activities, either to fund our losses or for working capital requirements.

In late 2012, our management, in consultation with our Board of Directors, decided that we needed to shed businesses that we could not finance, narrow our focus to our most promising businesses and reduce overhead costs. Consistent with this strategy, we shut down the Asset Development business, sold the ESCO business, GESPC, our regional service business and our FRR contract with the Army Corps of Engineers and made significant reductions in our remaining headcount, most of which was accomplished during 2013.

We are now solely focused on our energy efficiency business, which has historically been our fastest growing business. It is also a business in which we believe we are the market leader based on the number of programs we manage, and it is a market that we believe has good prospects for future growth.

Our nine month 2014 results demonstrate that the actions we have taken have significantly reduced the cash consumed by operations before changes in assets and liabilities. We believe that if our utility programs continue to grow and mature, and our lawsuit and investigation related costs decline, as we believe they will, we will begin to generate positive earnings within the next quarter or two. We believe that this, in combination with our current cash balances, will permit us to continue to operate until we turn cash flow positive, hopefully later this year. However, despite the capital we recently raised, our liquidity remains tighter than we would like. While it is possible that our current cash balances will be sufficient to carry us until our operations turn cash flow positive, it is also possible that we will need to raise additional capital sometime in the near future. If we do determine it is necessary to raise additional capital, there is no assurance we will be able to do so, or, it may only be available on terms that are not favorable to the Company and/or our existing stockholders. If we need to raise additional capital and are unable to do so, our future growth and/or profitability could be impaired, in the worst case possibly jeopardizing our continued operation.

Cautionary Note Regarding Forward-Looking Statements

Our disclosure and analysis in this quarterly report, including Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act

Table of Contents

of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking. You can identify these forward-looking statements by the use of words such as anticipate, believe, estimate, expect, hope, intend, may, project, plan, goal, target, should, and similar expressions, including when used in the negative.

Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements, including but not limited to those described in our Annual Report on Form 10-K filed with the Securities and Exchange Commission under Part II, Item 1A Risk Factors and the following:

- Our business model has changed in significantly several times since our inception in response to a constantly changing and evolving market, including our decision to focus on utility programs, which may make it difficult to evaluate our business and prospects, and may expose us to increased risks and uncertainties;
- we have incurred significant operating losses since inception and may not achieve or sustain profitability in the future;
- we may not be able to raise additional capital to fund future operating losses;
- the Securities and Exchange Commission is investigating us and the results of that investigation could have a material adverse effect on our business, results of operations and financial condition;
- our customers and investors may lose confidence in us because of our restatement;
- it is difficult for us to estimate our future quarterly results;
- we operate in a highly competitive industry and if we are unable to compete successfully our revenue and profitability will be adversely affected;
- we depend upon a limited number of utility contracts to generate substantially all of our revenue;
- our ability to generate revenues depends upon receipt of certain regulatory approvals and our ability to sell sufficient program services; and
- failure of our subcontractors to properly and effectively perform their services in a timely manner could cause delays in the delivery of our energy efficiency solutions.

All forward-looking statements in this quarterly report should be considered in the context of the risk and other factors described above and as detailed from time to time in the Company s Securities and Exchange Commission filings. Any forward-looking statements speak only as of the date the statement is made and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. It is not possible to identify all of the risks, uncertainties and other factors that may affect future results. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this quarterly report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Accordingly, users of this quarterly report are cautioned not to place undue reliance on the forward-looking statements.

Except as otherwise required by federal securities laws, we do not undertake any obligation to publicly update, review or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

ITEM 3. **Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

Table of Contents

ITEM 4. **Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

Our management, including our chief executive officer and our chief financial officer, maintains our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) and has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of September 30, 2014 the Company s disclosure controls and procedures are effective for the purpose of ensuring that material information required to be in the reports that we submit, file, furnish or otherwise provide to the Securities and Exchange Commission is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls.

There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three-month period ended September 30, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

Jeffrey Satterfield, individually and on behalf of all others similarly situated, v. Lime Energy Co., John O Rourke and Jeffrey Mistarz, United States District Court for the Northern District of Illinois, Case No. 1:12-cv-05704. This is a securities class action suit. An Order of Preliminary Approval of a settlement was filed on January 28, 2014. The parties agreed to settlement terms and an Order of Final Approval and Final Judgment was entered by the court on June 4, 2014.

Kuberski v. Lime Energy Co. et al., Case No. 12-cv-7993 (N.D. Ill.): This is a putative shareholder derivative action alleging that the Company officers and directors breached their fiduciary duties to the Company from May 14, 2008 through the present. Two derivative actions were filed, one on October 5, 2012 and one on March 5, 2013. The two cases were consolidated and the Court appointed Lead Counsel for the Plaintiffs on April 9, 2013. On May 9, 2013, the Plaintiffs filed a Verified Consolidated Shareholder Derivative Complaint, purporting to name as Defendants several former officers and directors of the Company. The Company is named as a Nominal Defendant. On June 10, 2013, Defendants filed a motion to dismiss for failure to make a demand on the Board of Directors of the Company or to adequately plead why demand should be excused, as required by Rule 23.1 of the Federal Rules of Civil Procedure and Delaware law. Plaintiffs filed a response on July 8, 2013, and Defendants

Table of Contents

filed their reply on July 22, 2013. On March 25, 2014, the Court granted Defendants motion to dismiss with prejudice. On April 22, 2014, Plaintiffs filed a Motion for Reconsideration and for Leave to File an Amended Complaint. The Court denied Plaintiffs Motion for Reconsideration on June 25, 2014. The parties are currently in mediation and settlement negotiations, and the court suspended the appeal during the mediation process. Defendants are in favor of settling and are actively working towards reaching a mutual settlement position.

SEC Investigation: The Securities and Exchange Commission is conducting an investigation of our revenue recognition practices and financial reporting. On September 11, 2012, the Commission issued a subpoena for documents. On July 25, 2014, the Commission asked for some additional documentation and asked to schedule three interviews. We are cooperating with the Commission s investigation.

ITEM 1A. **Risk Factors**

There have been no material changes in our risk factors since December 31, 2013. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission.

ITEM 2. **Unregistered Sales of Equity Securities and Use of Proceeds**

None.

ITEM 6. **Exhibits**

10.1 Employment Agreement, date April 23, 2014, between Lime Energy Co. and Mary Colleen Brennan (Incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on April 24, 2014.

31.1* Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2* Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1** Certification of the Chief Executive Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2** Certification of the Chief Financial Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101* The following financial information from Lime Energy Co Quarterly Report on Form 10-Q for the three-month period ended September 30, 2014, filed with the SEC on November 14, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the three and nine month period ended September 30, 2014 and 2013, (ii) the

Table of Contents

Consolidated Balance Sheet at September 30, 2014 and December 31, 2013, (iii) the Consolidated Statement of Cash Flows for the three and nine months ended September 30, 2014 and 2013, and (iv) Notes to Consolidated Financial Statements.

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* Filed herewith

** Furnished herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIME ENERGY CO.:

Dated: November 12, 2014	By:	/s/ C. Adam Procell C. Adam Procell *President and Chief Executive Officer (principal executive officer)*
Dated: November 12, 2014	By:	/s/ Mary Colleen Brennan Mary Colleen Brennan *Chief Financial Officer (principal financial and accounting officer)*